OILSEEDS, OILS & MEALS
MONTHLY PRICE AND POLICY UPDATE *

No. 35, May 2012

a) Global price review

The month of April saw yet another conspicuous upward move in prices across the oilseed complex.

Compared to the previous month, the strongest gain is seen in the FAO price index for oilmeals which increased by almost 9%, while the indices for oilseeds and for oils/fats rose by respectively 6% and 2%. Compared to the 2008 and 2011 global price spikes, the meals index is now at par with the peak recorded in 2008 and only 7% short of the 2011 historic record. The oilseeds and oils/fats indices are also heading towards the peaks observed in recent years.

With respect to oilseeds, renewed price strength reflects the tightness of global supply and demand in the 2011/12 season, which is characterized by a marked production deficit and a substantial decline in stocks. For the first time in years, production of the two major oilseeds, soy and rape, are declining at the same time. For soybeans, the severe South American drought continues to be the key driver: the magnitude of this season's decline in soybean output is unprecedented. Furthermore, the EU's 2011/12 rapeseed crop turned out well below previous expectations, which has raised dependence on Canadian and Australian supplies. Other elements supporting oilseed prices are strong Chinese import demand and the need for crop values to rise in order to stimulate 2012/13 oilcrop plantings, eventually meeting prospected further growth in global oil and meals demand.

The marked jump in the meal index has been driven primarily by the pronounced rise in soy prices. Additional damage suffered by soybean crops in South America directly translated into rising soymeal quotations. The appreciation in prices is expected to lead to a slowdown in soymeal consumption – with demand partly shifting to alternative feedstuff – in a number

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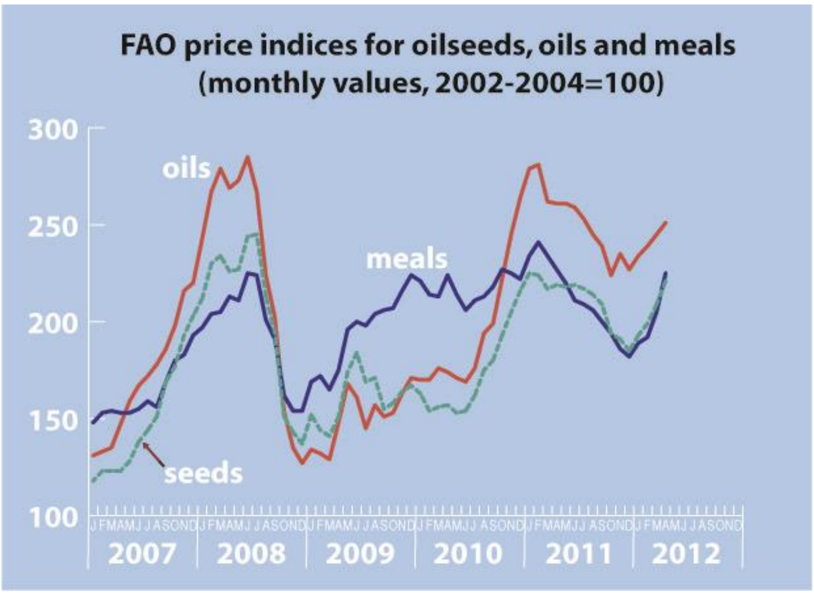

* The **Monthly Price and Policy Update**, or MPPU, is an information product provided by the oilseeds desk of the Trade and Markets Division of FAO. It reviews the development of international prices for oilseeds, oils and meals as reflected by FAO's price indices and spots important policy and market events selected from a variety of sources. The present issue covers developments observed during **March and April 2012**. Previous issues can be downloaded from the FAO website at URL
http://www.fao.org/economic/est/publications/oilcrops-publications/monthly-price-and-policy-update/en/

Global price review - *cont'd*

of countries, notably in Europe, Asia and Africa. Fishmeal prices have also weighed on the index: the prospective sizeable decline in global fishmeal output (following significant reductions in Peru's catch quotas), combined with strong Chinese demand, has pushed up prices – along with spillover strength from the soymeal market.

The oils/fats index has risen in the wake of surging soybean prices and due to prospects of an exceptionally tight supply and demand balance for soy oil. As global export availabilities of soy oil shrink, dependence on palm oil is growing – but palm oil continues to face below-average production growth in Southeast Asia, which, combined with persistently strong export demand, is resulting in reduced inventory levels.

b) Selected policy developments and industry news

ARGENTINA – biodiesel blending rate: Currently at 7%, the government is planning to gradually raise domestic mandatory blending to 10% between May and October this year, adding half a percentage point each month, say private sources. Some observers have related the measure and its timing to a possible slowdown in biodiesel shipments to foreign destinations. In particular, market observers don't exclude a reduction in the EU's (and in particular Spain's) purchases from Argentina.

ARGENTINA – foreign investment: Chinese investors continue to show interest in investing in agricultural activities in Argentina. Reportedly, officials from China's Fujian Province have proposed to develop large, currently underutilized tracts of land in Buenos Aires Province by providing advanced irrigation infrastructure. The long-term goal would be to produce grains, oilseeds and other crops for export to China, where domestic output continues to be sufficient to satisfy demand. Reportedly, to comply with recently enacted legislation that limits ownership of agricultural land by foreign individual or companies, Argentina's farmers would retain ownership of the targeted land, while Chinese partners would be granted pre-emptive rights over products grown on the land.

ARGENTINA – market regulation: A leading grain export firm has been temporarily suspended from government registries while the state tax agency is investigating about possible export tax evasions in the past. Such suspensions hamper companies' export operations and exposes them to higher income and sales taxation. Similar tax disputes between the tax agency and leading grain exporters have been reported in past years, especially during the harvesting/export season.

CHINA – public reserves policy

- Rapeseed procurement: Reportedly, the government is planning to raise the procurement price for rapeseed from Yuan 4600 to 5000 per ton. In recent years, government purchases have been expanded and state reserves used to support prices and encourage production so as to stem the downward trend in rapeseed plantings. The proposed price increase still requires approval by the State Council.
- Soybean procurement and releases: Private sources estimate state procurement of soybeans since last October at around 3.5 million tons, or about one quarter of the domestic crop. Reportedly, sales from public stocks have been minimal so far, with regularly held auctions attracting only few bids. Since the beginning of May, however, sales from state reserves are reported to have picked up as the price of imported soybeans has climbed beyond the state bidding price of Yuan 3900 per ton. Industry sources also reported that, to cut reserves before the 2012 harvest arrives, the government plans to soon release 2.5 million tons in the country's north-eastern inland provinces at a discounted price of Yuan 3700-3850.

CHINA – soy planting decline: Semi-official sources forecast soybean plantings to fall for the third consecutive season. After dropping 7 and

10% in the last two seasons, acreage is anticipated to fall by another 6.5% in 2012/13. The resulting drop in production is expected to raise import demand further. Behind the gradual reduction in plantings are government food security concerns that have lead to subsidies being granted to producers of rice, maize and wheat but not soybeans. For this year, a 14% increase in farmers' grain subsidies is reported, following a 17% rise last year. On the other hand, also the overall amount of arable land available in the country is reported to be shrinking due to urbanization effects.

CHINA – monitoring of imports: Reportedly, olive oil and DDGs are going to be added to the list of commodities whose imports are closely monitored by the government. Oilseeds, meals and oils are being monitored since 2008. The measure is supposed to help importers to analyze the market and the government to regulate the pace of purchases.

ETHIOPIA – market regulation: Reportedly, vegetable oil imports and subsequent distribution to poor households continues to be controlled and subsidized by the government. The retail price for the main edible oil, palm oil, has been set at Birr 525 per container of 25 litres. According to private sources, the country continues to be exposed to domestic supply shortages, along with hoarding and black market sales at higher prices, while private traders face a lack of import incentives.

EURASIAN ECONOMIC COMMUNITY – common import policy: The customs union decided to extend the 5% import duty that applies to tropical vegetable oils to consignments up to 19 tons. Previously, the duty only applied to packages weighing less than 200 kg. Above 19 tons, imports will be allowed to enter free of duty.

EUROPEAN UNION – storage aid for butter: As in previous campaigns, in March the bloc has started subsidizing private storage of butter. The aid is meant to support the market when prices are low, by temporarily taking product off the market. Under the programme, which has no quantitative ceiling, private operators receive Euro 14.88 per ton for fixed storage costs and Euro 0.26 per ton and day for contractual storage. A similar support programme is in force in the EU olive oil market.

EUROPEAN UNION – palmkernel meal quality checks: The detection of arsenic in imports of palmkernel expeller from Southeast Asia has led the EU Commission to consider adding the meal to the list of 'high risk' imports, which would imply increased monitoring of import flows and stringent checking requirements. Reportedly, concerned suppliers are investigating the sources of contamination and have promised to put in place a control system for exports.

INDONESIA – palm oil export tax: Based on recent successive rises in the international benchmark prices, the export tax Indonesia collects on crude palm oil has been raised from 16.5% in March to 18% and then 19.5% in, respectively, April and May. The corresponding rates for palm olein are 8, 9 and 10%.

INDONESIA – mandatory biofuel consumption: Starting July of this year, locally produced biodiesel must account for 2% of the total fuel consumed by the country's mining industry. The measure aims at reducing pollution and promoting domestic use of renewable fuels. Reportedly, several companies already agreed to comply with the new requirement. PL 30.3

INDONESIA – sustainable palm oil incentive: Reportedly, the government is considering to reward plantations that adopt sustainable practices – as defined under the newly launched national ISPO standard – by granting them cuts on bank interest rates and export taxes. Reportedly, plantation companies that have gained international RSPO certification already enjoy preferential bank lending rates. According to industry sources, ISPO certification, which has yet to start in earnest, will cost producers less than RSPO certification.

JORDAN – olive oil market regulation: The government is ready to set up an entity responsible for regulating the country's market for olive oil and for ensuring and promoting product quality. Private sources reported that in recent years the sector has been suffering heavily from deteriorating market conditions and irregularities.

MALAYSIA – export policy: Even though the recent change in Indonesia's export duty structure has negatively affected the competitiveness of palm oil refiners in Malaysia, so far the government refrained from modifying its own trade policy. Policy makers are concerned about possible negative bearings national export taxes could have on the income of palm oil producers, especially smallholders. Only measures that do not hurt small producers will be considered. Reportedly, among the options pursued is the establishment of a common tariff policy that both Malaysia and Indonesia could benefit from. According to private sources, the government is currently thinking about increasing the tax-free export quota for crude palm oil further so as to prevent a build-up in domestic stocks – which is considered likely given weakening demand from domestic refiners and the country's high export tax.

RUSSIAN FEDERATION – export policy: Reportedly, as a result of last year's bumper soybean crop, the government has decided to temporarily reduce the country's ad valorem export duty from 20 to 5 % (but no less than 8.50 Euro per ton). The reduced custom duty will remain in place until 1st October 2012.

SPAIN – biodiesel sourcing: Spain announced that petroleum companies may only use EU-produced biodiesel to comply with the country's mandatory blending requirements. Though not banning biodiesel imports from non-EU nations (notably Argentina and Indonesia), the measure is likely to make such imports unattractive while conferring an advantage to biodiesel producers in the EU, and especially in Spain. Reportedly, over the last few years, sharply rising biodiesel imports from overseas resulted in Spain's biodiesel industry working at less than 15% of installed capacity.

THAILAND – palm oil price control: In Thailand, the palm oil retail price continues to be controlled by the government. Reportedly, the concerned ministry engages in regular consultations with oil manufacturers to ensure fair pricing practices while securing adequate supplies for domestic consumption. Currently set at Baht 42 per 1-liter bottle, the government decided to keep the retail price unchanged despite rising pressure from refiners which requested an upward adjustment based on the recent surge in crude palm oil values. Last year, following the peak in international and domestic prices, the government temporary set the palm oil retail price at Bath 47 per bottle. This time around, the government has offered to introduce short-term measures to help concerned business operators. It also decided to conduct market inspections to make sure that the retail price cap was respected and that merchants were not hoarding palm oil. Reportedly, to calm the market, the government is also considering to import palm oil from abroad – a move criticized by domestic producers who claim that current supplies are still sufficient.

UNITED STATES – local biodiesel tax credit: Reportedly, the state of Illinois, which is the nation's leading producer of biodiesel, has ruled to extend the support it grants to the biodiesel sector. Originally introduced in 2003 and due to expire in 2013, a local state tax credit is now due to remain in place until 2018. By contrast, the biodiesel tax concession granted at the federal level has expired at the end of last year without being renewed.

UNITED STATES – bioenergy support measures: The federal government has launched two new grant schemes (together worth almost USD 80 million), one giving assistance to existing biofuel operations and the other one reserved for companies that conduct research on advanced biofuels, bioenergy and bio-based products.

Oil palm age profile and cultivation practices in Southeast Asia: It has been estimated that, in Malaysia, the world's second largest source for palm oil, about one quarter of oil palm plantations have passed the prime of their lifespan of 25 years and are due for replanting. Market observers warned that this situation could severely limit the country's capacity to serve the markets growing demand for palm oil in future years. In the case of replanting, 3-4 years need to pass before harvesting operations can resume. According to industry experts, in recent years, many estate owners in Malaysia as well as Indonesia have underinvested in their plantations and apply sub-optimal cultivation practices, causing yield erosion. In order to halt this trend replanting with high-yielding varieties, increased input use, and recourse to better motivated labour force seem urgently required – all measures that tend to raise production costs.

Free trade agreements

- United States - Colombia: The recently completed agreement is set to significantly improve access of US exporters of soybeans and derived products to the Colombian market. Under the new bilateral pact, Colombia is committed to phase out import quotas and over quota tariffs for agricultural products. Soybeans and soymeal will enjoy immediate duty-free treatment, while duty-free quotas will be granted for soyoil imports.
- United States - Republic of Korea: The free trade agreement that came into force last March is expected to create new opportunities for US soy complex exports. Korea is a regular importer of US soybeans and derived products, occupying place eight among US export destinations (in value terms). Under the new trade pact, US soybeans and soymeal will enter Korea free of duty, while the tariffs on crude and refined soyoil are set to be phased out during the next 5-10 years. Furthermore, importation of food-grade soybeans will be allowed for the first time.

Certified sustainable soybean: Industry experts expect demand for certified sustainable soybean to increase markedly in the coming years. Recently, several certification schemes have been launched, focusing on good agricultural practices and environmental sustainability as well as social aspects. Demand for certified soybean is seen to be growing in particular in northern Europe, and the number of global trading companies committed to buying certified product is said to be on the rise. In fact, in the next few years, sourcing sustainable soya to fully meet demand could prove challenging. Industry experts believe that convincing producers to invest in certification is going to require some time.

Sustainable biofuel feedstock: Finnish biofuel producer *Neste Oil* informed that, last year, half of the raw material it used to produce renewable fuels was certified sustainable. Palm oil, the company's predominant feedstock, was 83% certified and all of it is said to be traceable.

Certified sustainable palm oil

- Global supply and demand: Since its inception in 2008, the market for RSPO certified sustainable palm oil gradually expanded given increasing demand awareness. Today the annual production capacity for certified palm oil is estimated at 5.3 mill tons (plus 1.3 mill tons of certified palmkernel oil), processed by 29 grower companies in 135 mills in six countries: Brazil, Colombia, Indonesia, Malaysia, PNG and the Solomon Islands. Production capacity has thus grown to about 11% of global palm oil output. Certified sustainable palm oil (CSPO) reaches consumers via three supply chain mechanisms: the full segregation method and the mass balance calculation (which together account for one-third of all sales), and the *GreenPalm* book & claim mechanism (accounting for the remainder of the market). For 2011, actual global supply of CSPO has been estimated at 4.8 mill tons, whereas the total volume of sales is reported at 2.5 mill tons. With multinationals and key palm oil buyers pledging to source CSPO in the future, RSPO expects the market to continue expanding in coming years. However, while further growth in CSPO production seems likely (in particular in Indonesia, Latin America as well as Africa), it remains open to question whether matching growth in demand is going to be achieved. Market observers believe that much will depend on whether sustainable palm oil is going to gain more recognition in the United States, China and India.
- Indonesia: According to RSPO data, Indonesia has recently overtaken Malaysia as leading CSPO producer in terms of both, volume and production area. In 2012, the country's CSPO production is expected to rise to 3.5 million tons, whereas, by 2015, 5.6 million tons or one-fifth of the country's total palm oil output should be certified according to RSPO standards.
- Smallholder involvement: Indonesia has also become the largest CSPO producer from schemed

smallholders. Including smallholders in the transformation towards sustainability is considered to be critical in countries like Indonesia and Malaysia, where close to 40% of total output is estimated to come from smallholders. The latter face important challenges in becoming certified, including the lack of awareness on benefits of being certified; funding support; and the lack of expertise or capacity building. In this regard, a study recently presented by *WWF* claims that the benefits of embracing sustainability outweigh the certification costs incurred by producers, both large and smaller ones.

- Sourcing commitment: Global consumer goods company *Unilever* has pledged to buy all its palm oil from traceable sustainable sources by 2020. The company is considered to be the world's largest buyer of palm oil. Its new commitment replaces an earlier one whereby all of the company's palm oil purchases were to be backed by tradable certificates offered under the *GreenPalm* book & claim mechanism. *Unilever* has conceded that offsetting certificates are only a step along the road towards actual, widespread adoption of sustainable practices at the source. The company is said to plan investing in a large processing plant for palm oil derivatives in Sumatra, Indonesia to help it achieve its new target. Some industry experts caution that, in general, the necessary adjustments along the supply chain may require more time than currently anticipated. As a result, the amount of fully traceable produce available by 2020 could prove insufficient to satisfy industry demand. Some industry players have suggested the introduction of preferential import tariffs for traceable certified palm oil as one way to stimulate CSPO production.

Futures markets

- India: Surges in domestic soybean prices have prompted the country's commodity market regulator to delay offers by commodity exchanges of new futures contracts for soybeans as well as to raise the margins that buyers are required to deposit with exchanges in order to trade in soybeans, soyoil and rapeseed. Reportedly, the measures are aimed at curbing excessive price volatility and speculation. IGC April and various press.
- United States: Prompted by new regulations issued by the country's commodity futures regulator, *CME Group* has raised the margin members need to deposit to guarantee speculative futures positions for all commodities.
- Palm oil versus soy oil: The *Bursa Malaysia* palm oil contract could overtake *CME/CBOT* soya oil as the world benchmark for the vegetable oil complex in a few years time, according to a market observer. Considering palm oil as the leader in vegetable oil price discovery, open interest in that commodity could exceed that in soy oil. The strategic partnership recently entered by *Bursa Malaysia* and *CME Group* seems to corroborate this view: in 2010, *CME* launched an electronically traded dollar-denominated palm oil contract that is settled against the *Bursa Malaysia* contract traded in Ringgit. The Malaysian exchange informed that it was studying innovative instruments to enable palm oil traders to better manage market volatility and to allow refiners to hedge refining margins between crude and refined palm oil.
- Competition within the United States: *ICE* decided to challenge *CME/CBOT*'s dominance of agricultural markets by listing contracts for soybeans, soyoil, soymeal, maize and wheat. *ICE*'s new contracts all settle against physical *CME/CBOT* deliveries in Chicago, but *ICE* seems to offers lower margin requirements, nearly around-the-clock trading hours and all-electronic dealing. *ICE* stated its initiative was driven by interest from non-speculative market participants, who, given the shifting regulatory environment, wish to conduct more trade through regulated exchanges, rather than in over-the-counter markets.

Foreign farmland investment: Initiated by the UN Food and Agriculture Organization, the first attempt to regulate overseas investment in farmland deals has won the consensus of nearly 100 countries – as well as civil society organizations, nonprofits, farmers' associations and the private sector – after three years of negotiation. The *Voluntary Guidelines on the Responsible Governance of Tenure of Land,* *Fisheries and Forests in the Context of National Food Security* aim at, inter alia, regulating the growing trend of so-called farmland grabs, which involve rich countries investing in overseas farming to ensure their own food security. The recurring surges in food prices at the global level is thought to have led to an increase in large-scale land acquisitions in Africa and Latin America, prompting calls for globally recognized principles and practices. The new set of guidelines promotes responsible governance of land tenure and access rights to land, fisheries and forestry, and allows concerned countries to provide safeguards to protect legitimate tenure rights of vulnerable rural populations, including the introduction of ceilings on permissible land transactions and rules regarding the approval of large-scale transfers. The guidelines explicitly encourage investment models that do not result in large-scale transfers of tenure rights to investors. Although implementing the guidelines is likely to pose challenges given their voluntary nature, they are seen as an important first step in the absence of binding agreements. FAO has committed to extend targeted technical assistance to governments to help countries implement the guidelines and adapt them to the national context.

Nutritional guidelines: As part of its initiative to develop and update evidence-informed guidelines on saturated-fatty acid and trans-fatty acid consumption, the UN World Health Organization has invited comments from interested parties.

For comments or queries
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	International Prices *(US$ per tonne)*					**FAO Indices** *(2002-2004=100)*		
	Soybeans[1]	**Soybean oil**[2]	**Palm Oil**[3]	**Soybean Cake**[4]	**Rapeseed Meal**[5]	**Oilseeds**	**Edible/Soap Fats/Oils**	**Oilcakes/ Meals**
Annual (Oct/Sep)								
2004/05	275	545	419	212	130	105	104	105
2005/06	259	572	451	202	130	100	108	125
2006/07	335	772	684	264	184	129	148	153
2007/08	549	1325	1050	445	296	217	245	202
2008/09	437	849	682	409	206	156	145	180
2009/10	429	924	806	388	220	162	174	215
2010/11	550	1308	1147	418	279	215	256	221
Monthly								
2010 - October	496	1165	998	415	285	193	222	227
2010 - November	526	1248	1117	430	292	205	245	225
2010 - December	550	1321	1229	437	289	216	264	222
2011 - January	572	1384	1279	454	313	225	279	234
2011 - February	569	1366	1286	447	290	224	281	241
2011 - March	552	1305	1172	423	264	217	262	234
2011 - April	553	1310	1148	406	277	219	261	227
2011 - May	556	1291	1155	403	280	218	261	220
2011 - June	559	1321	1137	396	289	219	259	211
2011 - July	558	1345	1100	405	262	217	253	209
2011 - August	557	1327	1080	402	248	214	245	206
2011 - September	546	1310	1065	396	255	209	239	200
2011 - October	502	1216	995	378	243	194	224	194
2011 - November	491	1228	1054	353	224	191	235	186
2011 - December	476	1163	1026	346	227	185	227	182
2012 - January	500	1223	1062	371	234	193	234	189
2012 - February	512	1245	1100	385	255	199	239	192
2012 - March	542	1283	1152	426	287	209	245	205
2012 - April	575	1308	1182	474	335	221	225	251

[1] Soybeans (US, No.2 yellow , c.i.f. Rotterdam)
[2] Soybean oil (Dutch, f.o.b. ex-mill)
[3] Palm oil (Crude, c.i.f. North West Europe)
[4] Soybean cake (Pellets, 44/45%, Argentina, c.i.f. Rotterdam)
[5] Rapeseed meal (34%, Hamburg, f.o.b. ex-mill)

Note: The FAO indices are calculated using the Laspeyres formula; the weights used are the average export values of each commodity for the 2002-2004 period. The indices are based on the international prices of five selected seeds, twelve selected oils and fats and seven selected cakes and meals.
Sources: FAO and Oil World